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C O N F I D E N T I A L SECTION 01 OF 03 KABUL 001225

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MANILA PLEASE PASS AMB PSELTZ
USDOC FOR DAS/TD MURPHY AND AFGHAN RECON TASK FORCE
STATE PASS USAID FOR JPRYOR
STATE PASS TDA FOR DSTEIN AND JSUSSMAN
STATE PASS TREASURY FOR U/S TAYLOR, LMC DONALD
STATE PASS OPIC FOR RCONNELLY AND DZAHNHEISER

E.O. 12958: DECL: 05/11/2013

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SUBJECT: UPDATE ON KABUL-KANDAHAR ROAD: AMBASSADOR'S MAY 7
MEETING WITH ARC VP LANE

Classified By: AMBASSADOR ROBERT P. FINN FOR REASONS
1.5 (B) AND (D)

1. (C) On May 7, Ambassador met with the Afghan Reconstruction Company's Vice President, Tim Lane, and Managing Director, Zaher Yaqoubi. Lane presented the Ambassador with a summary of progress on the Kabul-Kandahar road and shared concerns over the end-of-2003 completion deadline.
2. (C) Lane acknowledged ARC could have performed better to date. He pointed out, however, that ARC started operations with no infrastructure in place and significant demining required. ARC had to import and build up all production facilities and faced considerable delays in importation and transportation of relevant equipment. Right now, operations were proceeding very quickly. Lane noted that the most visible work) blacktopping) was done last and comparatively took very little time.
3. (C) Lane noted three factors of concern. First, the material amounts detailed in Louis Berger's bid document were not sufficient to complete the project) partially due to the following two factors. Second, after conducting survey work, ARC determined that heavily overloaded truck traffic traditional to Afghan transport would necessitate much thicker layers than originally planned. Third, the Afghan government had mandated that the road, including shoulders, be 12 meters wide, rather than the originally planned 10.5 meters. Lane acknowledged that the second factor could be alleviated if weight restrictions could be enforced on the road, but felt this was unrealistic in the near term. Addressing these factors, while maintaining world-class road building standards, would cost an estimated additional \$8.5 million.
4. (C) Lane said ARC was determined to build a world-class road as they had agreed and the USG had promised. The Ambassador noted that completion of the road was a foreign policy priority of the USG in Afghanistan. Indeed, it held the personal attention of President Bush. No one would benefit if the road fell apart in a few years. Lane agreed, noting that ARC also had a reputation to maintain. Lane added another factor that would require possible changes to ARC's original plans) the issue of frost depth. After study, ARC had determined that ensuring longevity of the road required modification of the original plan to account for frost depth.
5. (C) Lane detailed an often-troubled relationship between ARC and Louis Berger. Lane noted Berger was defensive regarding reasons it had not included the Afghan government's requirement of 12-meter width in the original agreement. Lane also detailed intense disagreements over minor accounting discrepancies. Finally, Lane shared his concern that Berger or USAID would think that ARC was trying to &scam8 them by raising their concerns over anticipated additional costs for completion of the project. The key issue, Lane asserted, was that if Berger and/or USAID &pushed back8 against these additional requirements, the result would be a diminution in quality of the finished road. (USAID Comment: USAID has heard many complaints from TISA officials about the &high8 costs associated with this road. ARC's comments will likely generate more criticism. End comment.)
6. (C) Lane also noted that security issues were perhaps not being fully reported by Berger. According to Lane and Yaqoubi, on Saturday, April 3, an armed group forced ARC's workers to cease working. According to Yaqoubi, the workers involved were all Afghan, and the gunmen reportedly asked them &When will the Turkish workers be here.8 ARC reported the incident to Louis Berger, and has taken steps to enhance security along the road project. At the May 8 Emergency Action Council meeting, both RSO and USAID confirmed they had not received any report about the incident. ARC has agreed

to pass their security incident report to the Embassy. USAID subsequently raised this issue with Louis Berger.

17. (C) Lane told Ambassador that ARC would soon be fully active, with blacktop scheduled to be laid beginning in July at 1-2 km a day. He was confident that ARC would complete the project on schedule. It was unfortunate, however, that just when ARC had its operations going at full speed, it would be completing its contracted project. ARC had not bid on future segments of the road, Lane said, because they wanted to complete their existing obligation to standard and they were assured that the entire road would be built to this same standard. Now it appeared that this standard would be diluted on the remaining portions of the road to meet a December 31, 2003 deadline. Given this situation, Lane maintained that ARC could complete additional portions of road at substantially lower cost per km (\$100,000 less) than their own project had required, and vastly less than the accelerated plans for completion of the remainder of the road entailed. For this reason, Lane asked if arrangements could be made to maneuver upcoming tender allocations of the road so that ARC could push on with its now-efficient work on the section adjoining their current project.

18. (C) Finally, Lane noted that ARC was preparing to test the output of their asphalt plant through a demonstration in Kabul sometime in June, and suggested the road from the airport to the Presidential palace might be appropriate.

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